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C O N F I D E N T I A L SECTION 01 OF 03 WELLINGTON 000589

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SUBJECT: NEW ZEALAND - DUBAI BID FOR AUCKLAND AIRPORT RUNS UP AGAINST POPULIST POLITICS

Classified by Consul General John Desrocher for reasons 1.4 (b) and (d).

This message was drafted by ConGen Auckland and approved by Embassy Wellington.

Summary

¶1. (C) A Dubai company's bid to purchase New Zealand's biggest airport has encountered strong public opposition to sale of "the family silver" to a foreign company. While anti-Arab sentiment plays some part, the real root of the opposition lies in the popular perception that the government botched previous privatizations. Overwhelming public opposition, which says a lot about Kiwi ambivalence to globalization, means that the Dubai company is unlikely to get the local political support it needs to make the complicated transaction work. End summary.

Barbarians at the Gate

¶2. (SBU) A Dubai company's bid to purchase a majority shareholding in Auckland's airport ran into trouble as soon as it was made public. The board of Auckland International Airport Ltd. (AIAL) announced July 22 its support for the Dubai Aerospace Enterprise (DAE) offer; seven other potential buyers have expressed interest in the airport. DAE is controlled by Dubai's ruling al Maktoum family. About 23% of AIAL's shares are owned by two of the four cities that make up the greater Auckland metropolis, Manukau City (where the airport is located) and Auckland City. Remaining shares are publicly traded on New Zealand and Australian stock exchanges. Under the complicated terms of the transaction, DAE would have to gain 75% shareholder support to purchase 51-60% of AIAL for a total cost of NZD 2.6 billion (approximately USD 2 billion). Shareholders will vote on the deal in November.

¶3. (SBU) Reaction from the public and from politicians was swift and almost entirely negative. Letters to the editor ran overwhelmingly against the sale. Manukau Mayor Sir Barry Curtis, a politician from the traditional left who is expected to retire soon after running Manukau for 24 years, expressed vehement opposition to the sale, noting how much in dividends Manukau City had earned from its investment over the years. Auckland Mayor Dick Hubbard, a first-term politician from a business background who will seek reelection in October, waffled. All but one of the

candidates seeking to succeed Curtis and Hubbard in upcoming local elections expressed opposition. The only one to support the sale was long-shot Auckland mayoral candidate Steve Crow, owner of New Zealand's largest chain of "romantic accessories" stores and sponsor of an annual topless motorcycle rally in Auckland.

¶4. (C) The opposition in Auckland was mirrored at the national level. The DAE bid was a godsend for Foreign Minister Winston Peters, head of the New Zealand First party.

In recent polling, New Zealand First has been languishing below the 5% threshold of support required for parliamentary representation; the DAE bid was perfect fodder for Peters' brand of populism. The governing Labor Party has taken a neutral stand, citing its obligation to be an independent regulator of the airport, though PM Helen Clark shed her neutrality long enough to note that "in general, people don't like their public assets privatized," a sentiment later affirmed by Trade Minister Phil Goff. National Party leader John Key said that, in principle, he would like to see the airport stay in New Zealand hands. A Green Party MP plans to introduce legislation giving Wellington the power to block the sale. (Comment. The fact that AIAL, with 77% of its shares traded on open markets, is already private and possibly foreign-owned seems almost forgotten in the current debate. End comment.)

Not Simply Anti-Arabism

¶5. (SBU) Anti-Arab sentiment played a part in the public reaction, as evident in some of the more overwrought letters

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to the editor. (One suggested that DAE would not allow Jews to use the airport.) However, public opposition goes beyond ethnicity. A poll taken in June when the only bidder on the airport was a Canadian pension fund revealed that 84% of Manukau and Auckland residents opposed sale of their councils' AIAL shares, with an equal proportion of the broader New Zealand public opposing sale of the airport to a single foreign entity. A more recent poll revealed 81% disapproval of the DAE bid. It is also worth noting that few, even among vehement opponents of the deal, have argued that putting the airport in "Arab control" would make the facility less secure or somehow expose New Zealand to a greater terrorist threat.

¶6. (SBU) The real source of public opposition is New Zealanders' recollection of past privatizations. Much of the commentary since the DAE announcement has called attention to the sale in the 1980s of the state-owned phone company, railway, postal bank, insurance company, forestry corporation, Bank of New Zealand, and Air New Zealand. In the popular mind, buyers (often foreign) stripped these companies of assets, or ran them into the ground, or both. Similarly, that all of New Zealand's significant newspapers, banks and supermarkets are foreign-owned breeds suspicion and resentment.

Those in Favor

¶7. (SBU) Not all voices are opposed or silent. Editorials in the country's two biggest newspapers, the Herald and Dominion Post, urged that the bid be judged on its merits. Free market economists poke holes in the anti-DAE arguments. They argue that problems in the 1980s were not due to sales to foreigners per se, but rather due to poor government management of the process. As a result, the phone company, for example, simply went from being a badly-run state enterprise to a badly-regulated private monopoly. They point out that other countries have sold airports to foreign buyers without the sky falling in. Heathrow is owned by a Spanish

consortium and New Zealand's Infratil owns airports in Kent, Glasgow and Luebeck. They also claim that AIAL is not particularly well-run. It collects stiff fees (Air New Zealand is suing over AIAL's latest landing fee hike), but lacks the amenities one would expect from an OECD country's gateway airport - it has no brand-name hotel, no rail link to the city, and a road link often so clogged that getting to and from the airport is more easily accomplished by navigating through suburban neighborhoods.

Comment

18. (C) Reaction to the DAE bid shows how ambivalent New Zealanders are about globalization. Most Kiwis understand that countries with thriving economies are those that are open to the world. So in public they recognize that the country needs immigrants to replace the thousands of young Kiwis who emigrate each year, but they mutter in private (and sometimes publicly) that Asians are lousy drivers and are bidding up real estate prices. They insist that they want an FTA with the U.S. but reject on largely nationalistic grounds a reasonable and cost-saving proposal to set up a joint drug testing agency with Australia. Their own airport company owns facilities abroad, but their foreign minister describes the proposed sale of New Zealand's airport, inevitably described as "a strategic asset" or "the family silver," as "economic treachery."

19. (C) DAE's bid probably will not succeed. Under the complicated terms of its proposal (apparently cheaper for DAE than simply going to the market to buy 51% of openly-traded shares), DAE needs the support of at least one of the two city councils. While it could technically reach 75% shareholder support without the 23% of shares owned by Manukau and Auckland, most commentators believe that gaining the support of virtually all of the holders of publicly-traded shares is just too high a bar to overcome.

10. (C) Manukau Mayor Curtis has already made clear where he stands. Auckland Mayor Hubbard, a businessman, is probably philosophically open to the sale, but he faces a tough reelection campaign and will probably bend to popular will.

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The major national parties will be reluctant to get involved. One National MP told Auckland PO that, while he is depressed that the DAE bid is not being considered on its commercial merits, his party will certainly lie low and say as little about the situation as it can get away with. Against all this, the support of a few liberal economists, newspaper editorial writers, and New Zealand's leading pornography vendor is probably little consolation to DAE.

MCCORMICK